

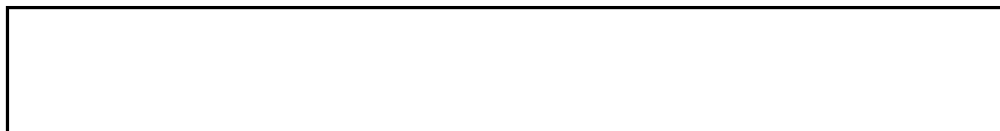
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7 January 1964

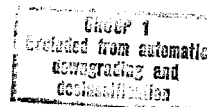
MEMORANDUM FOR THE DIRECTOR

**SUBJECT: Talking Paper -- Probable Consequences of
US Aid Cuts to Indonesia**

- A. Any significant cuts in US aid would sharply jolt US-Indonesian relations and provoke the volatile Sukarno to retaliatory actions, possibly extreme.
- B. In general, of course, the more sudden, complete, and public the US action, the more drastic would be Sukarno's responses.
- C. **LIKELY CONSEQUENCES OF A US COURSE OF PARTIAL CUTS**
 - 1. Sukarno would probably stop short of breaking relations, though this cannot be ruled out as part of a first emotional response.
 - 2. Some hostile acts against US personnel and interests in Indonesia, similar to recent anti-British actions there, though Indonesian authorities would probably want to limit them.



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4. Increasing encroachments on privately-owned US interests, though probably stopping short of expropriation.
5. Dropping of US influence generally in Indonesia, but this hasn't been much for some time anyway.
6. Sukarno would probably not be deterred from pressing his military and para-military campaign against Malaysia.
7. Increase of PKI influence.
8. The US course would encourage British and Malaysia.
9. Sukarno would probably turn to USSR and China for greater support.
 - a. There would be a more rapid implementation of the already obligated Soviet aid program.
 - b. Soviets would encourage Sukarno's rabid anti-Westernism and support his anti-Malaysian campaign -- seeking to keep that campaign, however, from igniting major hostilities in the area.
 - c. Sino-Soviet competition would serve to offset chances of either Moscow or Peking becoming sole protector of Sukarno.

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10. Philippines would probably continue to play ambivalent, middle role.
11. The US move would have some sobering influence on certain states now receiving US aid elsewhere in the underdeveloped world.

**D. LIKELY CONSEQUENCES OF A MUCH TOUGHER US COURSE -- E.G.,
ABRUPT TERMINATION OF ALL AID.**

1. At least an even chance that Sukarno would:
 - a. Permit mob violence against US nationals
 - b. Expropriate US property
 - c. Break diplomatic relations -- one consequence being a virtually complete loss of US intelligence assets.
2. He would also probably bring PKI into the cabinet.
3. Economic situation would further worsen, but this would not endanger Sukarno's continuing dominance of Indonesia.
4. Sukarno would probably not moderate his effort to destroy Malaysia.
5. Indonesia would probably move closer to the USSR and Communist China, though not to the point of endangering Indonesia's independence.